

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-3862

April 1, 2004

R E S O L U T I O N

Resolution E-3862. Pacific Gas & Electric (PG&E) Company requests authority to revise electric and gas tariffs and establish various balancing and memorandum accounts to implement Modified Settlement Agreement (MSA) adopted by Decision (D.) 03-12-035 and comply with D04-02-062. PG&E's request is approved with modifications.

Advice Letter 2510-G/2460-E Filed on December 31, 2003 and Supplemental Advice 2460-E-A filed March 1, 2004.

SUMMARY

This Resolution approves with modifications PG&E's proposed tariff revisions, its request to establish various revenue adjustment mechanisms (RAM) balancing accounts, to modify certain regulatory accounts, and withdraw several electric regulatory accounts that are no longer applicable or needed.

The Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN) protest the AL. ORA believes that the approval of the AL would implement the Modified Settlement Agreement (MSA) prematurely if rehearing issues are not resolved, seeks a reduction of \$125 million to the approved Regulatory asset amount of \$2.21 billion, requests that PG&E's gas business not share in the Commission's professional fees and expenses as a result of PG&E's voluntary bankruptcy. TURN protests PG&E's recovery of the funding of the Environmental Enhancement Corporation in the distribution ratemaking mechanism, and PG&E's proposal to eliminate Utility Retained Generation Income Tax Memo Account (URGITMA).

ORA's protest issues are denied. TURN's protest issues are partially granted by not allowing the URGITMA elimination.

BACKGROUND

PG&E filed Advice Letter 2510-G/2460-E on December 31, 2003, pursuant to Ordering Paragraph (OP) 7 of D.03-12-035. OP 7 approved Appendix C, the MSA attached to D.03-12-035.

Paragraphs 2e and 4 (“Implementation of Ratemaking”) of the MSA state that:

[2e.] Balances in PG&E’s [Transition Cost Balancing Account] TCBA, determined in accordance with Commission Decision No. 01-03-082, as of January 1, 2004 shall have no further impact on PG&E’s Retail Electric Rates ... and PG&E’s current Retail Electric Rates will be replaced by the Retail Electric Rates resulting from this Agreement, the Settlement Plan, and the Confirmation Order as of January 1, 2004.¹

[4] To ensure that all conditions to the Effective Date are met as soon as practicable after the Commission decision approving this Agreement, PG&E shall file an advice letter to implement all the rate and tariff changes necessary to implement the Settlement Plan.²

PG&E’s proposed new ratemaking mechanisms include revenue adjustment mechanisms (RAMs) and balancing accounts to ensure cost recovery post-Chapter 11. It also provides for the existing mechanisms to be modified and others eliminated because they are no longer applicable or needed. PG&E claims that the tariff changes it proposed in the filing are consistent with Chapter 10 of its testimony in Investigation (I.) 02-04-026 filed April 22, 2002.

PG&E proposes to establish the following RAMs for recovery of its authorized distribution, public purpose program, nuclear decommissioning and retained generation revenue requirements after eliminating the Transition Revenue

¹ See page 12 of the MSA.

² See page 15 of the MSA.

Account (TRA) on December 31, 2003. These accounts are effective January 1, 2004 pursuant to the MSA.

- Distribution Revenue Adjustment Mechanism³ (DRAM) –Electric Preliminary Statement Part CZ;
- Public Purpose Program Revenue Adjustment⁴ (PPPRAM)– Electric Preliminary Statement Part DA;
- Nuclear Decommissioning Adjustment Mechanism (NDAM) – Electric Preliminary Statement Part DB; and
- Utility Generation Balancing Account⁵ (UGBA) – Electric Preliminary Statement CG.

PG&E proposes additional new ratemaking mechanisms to implement the other provisions of the MSA as follows:

1. Regulatory Asset Revenue Adjustment Mechanism (RARAM) – Electric Preliminary Statement Part DC

The monthly revenues from a component of electric rates and one-twelfth of the annual revenue requirement associated with the amortization of the Regulatory Asset as determined in Appendix A, Technical Appendix of the MSA are recorded in the RARAM, beginning January 1, 2004. Consistent with Paragraph 2d of the MSA, the outstanding balance of the Regulatory Asset will be adjusted, as necessary, dollar for dollar, to reflect the net after-tax amount of any refunds, claim offsets, and other credits from generators or other energy suppliers relating to PG&E's Power Exchange (PX), Independent System Operator (ISO), Qualifying Facilities (QF), and Energy Service Provider (ESP) costs it receives in its Chapter 11 case in 2003 and thereafter. The Commission shall determine how PG&E shall refund or credit to the

³ Costs associated with funding the PG&E Environmental Enhancement Corporation pursuant to the MSA (#17c) will be recorded in this account.

⁴ D.99-10-057 approved PPPRAM and NDAM.

⁵ Approved by Resolution E-3822 and AL 2240-E-B effective 1/1/03.

benefit of its ratepayers, any refunds, claim offsets or any other credits not yet allowed to reduce the Regulatory Asset prior to being securitized by a Dedicated Rate Component (DRC) or after the DRC is established.

2. Regulatory Asset Tax Balancing Account (RATBA) – Electric
Preliminary Statement Part DD

The carrying costs due to any timing difference between: 1) the actual MSA Regulatory Asset-related income tax payments made by PG&E; and 2) the income taxes based on the amortization of the Regulatory Asset defined in the MSA paragraph 2a and Appendix A, Technical Appendix, as adjusted for net-after-tax amounts of refunds and other credits pursuant to MSA paragraph 2d, are recorded in the RATBA for recovery. Any interest imposed by the federal and state-taxing authorities is also recorded in the account. PG&E shall amortize RATBA balance in retail electric rates over the greater remaining life of the Regulatory Asset or five years.

3. Headroom Account (HA) – Electric Preliminary Statement Part DE

The HA tracks the headroom collected in 2003 consistent with Definition 1z and Paragraph 8a of the MSA and D.03-12-035. In the event the 2003 actual headroom exceeds \$875 million or less than \$775 million, PG&E will amortize through this account the amount in excess of \$875 million or the difference between the 2003 actual headroom and \$775 million in customer's future electric rates. The litigation costs, bankruptcy-related costs, bankruptcy-related retention bonuses and any other costs of PG&E Corporation or any other PG&E affiliate will not be included in the determination of the 2003 headroom as indicated by OP 4 of D.03-12-035.

4. Electric Reimbursable Fees Balancing Account (ERFBA) and Gas
Reimbursable Fees Balancing Account (GRFBA) – Electric and Gas
Preliminary Statements DF and BF

The professional fees incurred by the California Public Utilities Commission (CPUC) pursuant to Paragraph 15 of the MSA are to be recorded in ERFBA and GRFBA for recovery. PG&E proposes that the ERFBA be reviewed for recovery in a new Electric Annual True-up Proceeding or other authorized

proceeding over a period not to exceed four years while the GRFBA will be reviewed in the Biennial Cost Allocation Proceeding (BCAP) or other authorized proceeding.

5. PG&E Proposed other Accounts

PG&E proposes other new accounts not directly related to the MSA. They are the Department of Water Resources (DWR) Power Charge Balancing Account (PCBA) and Electric and Gas Facilities Fees Tracking Accounts.

OP 7 of D.04-01-028 states that “PG&E may establish power charge balancing account” in response to PG&E’s request to record the difference between the amounts remitted to DWR pursuant to the Commission adopted remittance formula and the amounts collected from bundled electric customers’ DWR power charge rate component. PG&E proposes to rename this account the “Power Charge Collection Balancing Account” in response to DWR’s protest of AL 2465-E, which implements PCBA rate. DWR raised concerns regarding the initial PCBA preliminary statement language proposed by PG&E. DWR is concerned that PG&E collects funds due to DWR at one rate from customers and remits them at another, Commission- adopted rate. DWR believes this is in violation of Water Code and Commission decisions. It is also concerned that the collection rate used by PG&E for DWR funds is subsumed in PG&E’s costs or “Generation Charge.” PG&E and DWR worked together to resolve these concerns.

a. Power Charge Collection Balancing Account (PCCBA)–Electric Preliminary Statement Part DG

The PCCBA will “track the difference between (1) the amounts collected by PG&E on behalf of Department of Water Resources (DWR) as DWR’s agent and remitted to DWR pursuant to the remittance formula under PG&E’s applicable Servicing Order, using the Remittance Rate established in the relevant Commission decisions, and (2) the portion of total amounts collected from bundled customers attributable to the Power Charge Collection Balancing Account rate component.” In addition, “[t]he PCCBA is a customer

balancing account and not intended to change the remittance formula or Commission decisions in any way or change PG&E's obligations to segregate and hold Power Charges from customers in trust for the benefit of DWR pursuant to Water Code Section 80112. To the extent that the amount derived from bundled customers under the PCCBA rate components is greater or lesser than the amount of DWR Power Charges remitted to the DWR from bundled customers, that difference is reflected in setting a bundled customer future PCCBA rate component."

b. Electric Credit Facilities Fees Tracking Account (ECFFTA) and Gas Credit Facilities Fees Tracking Account (GCFFTA)- Electric and Gas Preliminary Statements DH and BG

The ECFFTA and GCFFTA will record electric and gas portions, respectively, of incremental costs associated with obtaining working capital from banks and/or other institutions upon emergence from Chapter 11 due to a lower credit rating than PG&E's historic high investment grade rating. Costs will include fees associated with obtaining and maintaining credit and working capital facilities. PG&E proposes that the balance in the ECFFTA be reviewed for recovery in its newly proposed Electric Annual True-up Proceeding or other authorized proceeding, while the GCFFTA will be reviewed for recovery in the BCAP or other approved proceeding.

In addition to the new regulatory accounts, PG&E also proposed to modify certain existing ratemaking mechanisms. These are:

- **Modified Transition Balancing Account (MTCBA):** The MTCBA currently holds ongoing transition costs associated with qualifying facility (QF), other purchased power agreements, employees' transition costs, and other authorized above-market generation costs. PG&E proposes to modify the MTCBA and record ongoing competition transition charge (CTC) revenue and costs from bundled, Direct Access (DA), and Departing Load (DL) customers.
- **Energy Resource Recovery Account (ERRA):** The ERRA holds and recovers fuel and purchased power costs associated with PG&E's

authorized procurement plan. PG&E wants to modify ERRA to establish a rate, to record rate revenues to implement bottoms-up ratemaking, and to credit the ERRA for the portion of procurement costs that are recorded and recovered in the MTCBA.

- **Rate Reduction Bond Memorandum Account (RRBMA):** The RRBMA currently records the difference between the Rate Reduction Bond Savings Amount and the 10 percent Rate Reduction Amount provided to residential and small commercial customers in accordance with Assembly Bill (AB) 1890. PG&E proposes to modify the RRBMA to include a RRBMA rate, and record revenues in order to amortize the over-collection balance in the account.
- **Gas Supply Portfolio (GSP):** The GSP includes the cost of gas procured by PG&E for its Core Procurement customers. The costs are recovered through the procurement revenue requirement. PG&E proposes to modify the GSP section of the Gas Accounting Terms and Definitions, Gas Preliminary Statement Part C, to state that costs associated with pre-payments, credit, and collateral payments, including associated fees for gas procurement, transportation, and related services, should be included in the GSP costs.

PG&E further proposes to eliminate several ratemaking mechanisms that are no longer necessary or needed because these are being replaced by other ratemaking mechanisms as result of a return to cost of service ratemaking. The accounts proposed by PG&E for elimination used to be associated with AB 1890 framework when a rate freeze was in effect and PG&E had to buy and sell through the PX.

The proposed accounts to be eliminated are the TRA, generation memorandum accounts (GMA),⁶ the generation asset balancing account

⁶ The GMAs (Preliminary Statements Part AX, AY, AZ, and BE) were eliminated by compliance Advice 2240-E-B E as authorized by E-3822.

(GABA),⁷ the transition cost balancing account (TCBA), and the following accounts:

1. Block Forward Market Memorandum Account (BFMMA): The BFMMA tracked costs incurred by PG&E to participate in the PX's Block-Forward Market that are not billed to PG&E by PX or the ISO. PG&E indicates that the balance in this account is zero and the PX is longer operating.
2. PX Credit Audit Memo Account (PXCAMA): The PXCAMA tracks costs associated or related to the monthly audit of the PX Energy Credit calculations. The account balance is zero, the PX is no longer operating, and no further audit of direct access customers' PX Energy Credit is needed, pursuant to D.03-08-061, Finding of Fact No. 12.
3. Power Exchange Memorandum Account (PXMA): The PXMA tracked PX start-up and development costs incurred on or after July 17, 1996 by PG&E that were rejected by Federal Energy Regulatory Commission (FERC). PG&E indicates that the balance in the account is zero and no new activity is expected in the future.
4. Power Exchange Bilateral Option Memorandum Account (PXBOMA): The PXBOMA tracked costs associated with procuring energy, ancillary services, capacity products, and transmission-related services in connection to the bilateral option services offered by the California Trading Services Division of the PX. The balance in the account is zero and the PX is no longer operative.
5. Reduced Return on Equity Memo Account (RROEMA): The RROEMA tracked the difference between the return on equity adopted in D.96-11-060 and the reduced return on equity adopted in D.95-12-063, as modified by D.96-01-009 and affirmed by D.96-12-089, applicable to the investment-related assets for which PG&E sought eligibility for

⁷ PG&E proposed to establish GABA through AL 2048 filed June 23, 2000 that has not been approved the Commission.

transition cost recovery. The balance in this account is zero and PG&E expects no future activity.

6. Rate Group Transition Cost Obligation Memo Account (RGRCOMA): The RGRCOMA tracked the transition cost obligations by rate group for determining the end of the rate freeze date for each rate group. D.00-06-034, OP 15, eliminated the account.
7. Competition Transition Charge Exemptions Memo Account (CTCEMA) and PU Code Section 381(d) – Renewable Program Costs Tracking Account (RPCTA): The CTCEMA tracked transition costs that would have been recovered if not for the exemption during the period from January 1998 and December 2001 as set forth in AB 1890. The RPCTA tracked renewable program revenues collected through rates from January 1, 1998 through December 31, 2001. PG&E claims that if the rate freeze had extended beyond December 31, 2001, the account balances at that time would have been used to calculate the transition costs for recovery through March 31, 2002. PG&E wants to eliminate the accounts since the March 31, 2002 date is past and the MSA provides that the balance in the TCBA as of January 1, 2004, shall have no further impact on PG&E's retail electric rates.
8. Helms Adjustment Account (HAA): The HAA tracked the cost of owning, operating, and maintaining the Helms Pumped Storage Project as adopted in D.91-11-056. PG&E indicates that the balance in the account is zero and no new activity is expected in the future.
9. Arbitration Memo Account (AMA): Costs of arbitrating Standard Offer 4 (SO4) contract bids are recorded in the AMA. PG&E expects no future activity and the balance in the account is zero.
10. Applicant Installation Trench Inspection Memorandum Account (AITIMA) and Applicant Installation Trench Inspection Deferred Account (AITIDA): The AITIMA tracked the amounts to be recovered from electric and gas customers for the first inspection of each section of trench on applicant-installed projects while the AITIDA tracked amounts collected from a line extension applicant for the first inspection

of each section of trench on applicant-installed projects. D.03-03-032⁸ eliminated these accounts.

11. Interruptible Load Curtailment Penalty Account (ILCPMA): The ILCPMA tracks noncompliance penalties under PG&E's interruptible tariffs for applicable non-firm service customers failing to curtail the use of electricity when requested to do so. In D.02-04-060, the Commission determined that the penalties are billed to customers in accordance to the provisions of the applicable tariff. The balance in the account is zero and no future activity is expected.
12. Emergency Surcharge Procurement Memo Account (ESPMA) and Surcharge Amortization Revenue Memo Account (SARMA): The ESPMA tracks the one cent and three cents emergency procurement surcharges established by D.01-01-018 and D.01-03-082, and the SARMA tracks the one-half cent emergency procurement established by D.01-05-064. PG&E claims that the MSA makes these accounts moot since electric rates are to be established bottoms-up as a result of the approval of the MSA.
13. Diablo Canyon Property Tax Balancing Account (DCPTBA): The DCPTBA tracks the difference between actual and authorized costs associated with Diablo Property taxes. In AL 2240-E-A, PG&E requested that the balance in the DCPTBA be transferred to the Utility Generation Balancing Account (UGBA) and to eliminate DCPTBA. Resolution E-3822 approved PG&E's request.
14. Schedule E-BID Memo Account (E-BIDMA): The E-BIDMA tracked costs incurred by PG&E to implement and administer Schedule E-BID, Price Responsiveness Load Program, pursuant to Resolution E-3650. PG&E wants to eliminate the account because the program has been discontinued, and no costs are being recorded into the account.

⁸ PG&E requested elimination of these accounts in AL 2458-G/2379-E filed May 12, 2003, pending approval of the Commission.

15. Electric Deferred Refund Account (EDRA): The credits for monies subject to direct refund to electric customers pursuant to D.96-12-025, upon Commission approval of refund plans submitted by PG&E on or before January 31 each year, are recorded in the EDRA. PG&E claims that the account is no longer needed because refunds and disallowances can now be passed through to customers through other balancing account mechanisms and return to ratepayers under the approved rate design for those costs. By AL 2542-E filed December 17, 2003 PG&E requested that the \$172, 463 balance in EDRA be transferred to the DRAM because it would more cost effective than making direct refunds to customers. The Energy Division approved the AL on January 20, 2004.
16. Utility Retained Generation Income Tax Memo Account (URGITMA): The URGITMA tracks the time value of money related to income tax. The account tracks the difference between income tax revenue requirements for the income tax recorded in the URG balancing accounts and the actual URG related income tax payments, in a manner that does not violate the Internal Revenue Code normalization requirements. OP 7 of D.02-04-016 required the creation of the account. Resolution E-3822 approved the account as proposed by PG&E. PG&E claims that the MSA resolves the TCBA and that the URGITMA tax timing differences are a result of the generation related write-offs associated with costs and revenues recorded in the TCBA. Consequently, this account no longer serves a purpose.

Pursuant to OP 2 of D.04-02-062, PG&E filed Supplemental AL 2460-E-A, which modifies its ratemaking mechanisms proposed in AL 2460-E to ensure that PG&E's authorized 2004 revenue requirements are "trued up" in future rates. PG&E proposed in Attachment A to the AL calculations and formulas to impute revenue collected from customers to avoid over and under collections in certain regulatory accounts as it implements the directives required by D.04-02-062.

NOTICE

Notice of Advice Letter 2510-G/2240-E was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A and the service list of parties in the Order Instituting Investigation (OIL) 02-04-026).

PROTESTS

ORA filed a timely protest to AL 2510-G/2460-E on January 16, 2004. ORA asserts that the Commission should not adopt AL 2510-G/2460-E until after any and all applications for rehearing of D.03-12-035 are resolved because it believes the implementation of the MSA could be premature. ORA also alleges that the initial balance of \$2.21 billion of the Regulatory Asset approved by the MSA should have been reduced by the \$125 million amount incurred by PG&E Corporation but disallowed by D.03-12-035. ORA concludes its protest by asserting that the gas side of PG&E's business should not share in the Commission's professional fees and expenses related to PG&E's voluntary bankruptcy.

PG&E responds that ORA's request to delay the effective date of D.03-12-035 is unlawful because the decision has not been stayed. PG&E believes that a reduction to the approved Regulatory Asset amount would be a modification of D.03-12-035. It argues that the \$125 million in professional fees incurred by PG&E Corporation and not reimbursed by PG&E would provide additional cash to pay creditors upon emergence from bankruptcy therefore, reducing the amount it has to borrow. PG&E states that the whole company was in bankruptcy, not just the electric side of the business and as such the gas business should share part of the costs incurred by the CPUC. In addition, Paragraph 15 of the MSA allows recovery of these costs "in retail rates" and not only electric rates.

TURN filed a timely protest on January 20, 2004. TURN states that it filed testimony in the I.02-04-026, opposing PG&E's proposal in that proceeding to use DRAM for the recovery of its funding of Environmental Enhancement Corporation. TURN claims that D.03-12-035 did not resolve the issue. TURN believes that the DRAM is not the correct tracking

mechanism, but rather the PPPRAM or UGBA. TURN also alleges that it opposed the elimination of URGITMA in I.02-04-026 as proposed by PG&E. It asserts that PG&E has not demonstrated that the MSA required the account's elimination. It recommends the retention of the account until the Commission directs its elimination.

PG&E responds that it included the Environmental Enhancement Corporation funding resulting from the MSA in the DRAM because all customers pay for distribution service as well as for the funding of environmental enhancement programs while public purpose program costs are recovered through different programs from customers. PG&E argues that URGITMA is intended to track any tax timing differences arising from the financial impacts related to the writing-off of generation-related costs for financial accounting purposes that are included in the TCBA, compared to tax liabilities incurred if such costs were to be recovered in subsequent rates. It further asserts that Paragraph 2e of the MSA resolves PG&E's TCBA and waives any recovery of its past under-collections in return for the benefits received under Paragraphs 9 and 10 of the MSA including tax benefits and liabilities.

DISCUSSION

The Energy Division has reviewed AL 2510-G/2460-E, to evaluate the reasonableness of PG&E's request to establish new accounts, modify existing regulatory accounts, and eliminate several accounts that are no longer necessary as a result of approval of the MSA by D.03-12-035.

The Energy Division finds it reasonable to establish the Distribution Revenue Adjustment Mechanism (DRAM) as proposed by PG&E. It is also now appropriate to create the Public Purpose Program Revenue Adjustment (PPPRAM) and the Nuclear Decommissioning Adjustment Mechanism (NDAM) as anticipated by D.99-10-057, to modify the existing Utility Generation Balancing Account (UGBA), and to eliminate the TRA/TCBA accounting structure effective January 1, 2004. As was the case for the TRA and TCBA, PG&E shall report monthly 30 days after the end of each month to the Energy Division director the activity in the DRAM, PPPRAM, NDAM, ERRRA, UGBA, and URGITMA, with their year-to-date balances since the

accounts have been established. Any credit amount authorized by Commission for the TRA or TCBA after December 31, 2003 shall be credited to the Headroom Account by advice letter filing unless specifically authorized otherwise by the Commission.

The Regulatory Asset Revenue Adjustment Mechanism (RARAM), Regulatory Asset Tax Balancing Account (RATBA), Headroom Account (HA), Electric Reimbursable Fees Balancing Account (ERFBA), and Gas Reimbursable Fees Balancing Account (GRFBA) should be established pursuant to the MSA. It is reasonable to review the ERFBA and GRFBA in the Annual True-UP proceeding proposed by PG&E.

The protest issues regarding AL 2465-E were resolved by D.04-02-062. Conclusion of Law (COL) No. 15 of that decision granted the request of DWR concerning Power Charge Collection Balancing Account (PCCBA). AL 2460-E-A reflects PG&E's compliance.

It is reasonable for PG&E to establish the Electric Credit Facilities Fees Tracking Account and Gas Credit Facilities Fees Tracking Account at this time to record incremental credit facilities costs as a result of PG&E's lower credit ratings compared to its historic high investment grade. The amount in this account shall be reviewed in the next general rate case instead of the Annual True-UP proceeding. The account shall earn the three-month commercial paper interest rate or the rate of its successor index.

It is reasonable and appropriate to modify the following existing accounts: Modified Transition Balancing Account (MTCBA), Energy Resource Recovery Account (ERRA), Rate Reduction Bond Memorandum Account (RRBMA), and Gas Supply Portfolio (GSP) as proposed by PG&E.

In view of the approved MSA, it is reasonable to eliminate all the proposed accounts except for the Utility Retained Generation Income Tax Memorandum Account (URGITMA), Preliminary Statement, CH and Electric Refund Deferred Account (EDRA).

The purpose of URGITMA as stated in the preliminary statement is not in agreement with PG&E's assertion in its response to TURN's protest. "The

purpose of the URGITMA is to track the consequences of the timing differences between (1) income tax revenue requirements for current income tax recorded in PG&E's URG-related balancing accounts; (2) actual URG-related income tax payments made by PG&E." D.02-04-016 established 2002 revenue requirements for PG&E and required PG&E to create several balancing accounts to record authorized revenue requirements against actual revenues received until PG&E's GRC. TURN's protest is granted.

The EDRA was established by D.96-12-025 during cost of service regulation and the purpose of the account back then is still relevant today. PG&E's request is denied. It is, however, reasonable to transfer the amount in the account to the DRAM.

The Commission never authorized⁹ GABA by advice letters PG&E filed to establish the account, therefore there is no issue of account elimination.

TURN's protest regarding the Environmental Enhancement funding is denied. It is reasonable to recover the environmental enhancement funding program amount through the DRAM since all customers are to pay for it.

ORA protest issues are denied because they conflict the approved MSA.

The tariff revisions proposed by Supplement AL 2460-E-A are reasonable including the attached Attachment A.

COMMENTS

Public Utilities Code § 311(g)(1) provides that this Resolution be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311 (g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the

⁹ PG&E filed ALs 2048-E and 2049-E on October 26, 2000 upon imminent action by the Commission to reject AL 2010-E/E-A filed June 19, 2000 and September 15, 2000 respectively, to establish the GABA. PG&E later withdrew AL 2010-E/E-A through AL 2049-E.

proceeding. The 30-day comment period for the draft of this Resolution was neither waived nor reduced. According, the Draft Resolution was mailed to parties for public review and comment and will be placed on the Commission's Agenda no earlier than 30 days from today.

Natural Resources Defense Council (NRDC) and PG&E timely filed comments on the Draft Resolution. NRDC is in full support of the RAMs recommended for adoption because it would further the goal of Public Utilities (PU) Code Section 739.10. NRDC recommendation has been incorporated.

PG&E would like the adopted Resolution reflect the elimination of EDRA and URGITMA, and for the review of incremental costs associated with its emerging from bankruptcy at a lower investment grade credit rating than it is reflected in its 2003 GRC be resolved in the proposed annual true-up proceeding instead of the GRC recommended by the Energy Division. We disagree.

PG&E asserts "The EDRA was a mechanism created during PG&E's transition from cost of service regulation to what was intended to be competitive market and ...to ensure that customer's receive refunds during the period in which PG&E's rates were frozen and to ensure that these refunds and disallowances were not used to offset transition costs by including them in the TCBA." Retaining the EDRA provides better transparency of refunds or disallowances and gives the Commission more flexibility in its disposal of refunds or disallowances. A separate accounting of refunds or disallowances is part of Commission's oversight responsibility.

PG&E repeated the same argument it offered in its response to TURN's protest to the elimination of the URGITMA. It is true that the issue of income taxes was raised in the context of the timing when expenses were incurred and revenues received in rates in connection with transition cost recovery but the Commission adopted a broader view than it started with in its discussion of the issue and this is reflected in the conclusion of law and the ordering paragraph of the decision. OP 7 adopts the policy permeating the decision that PG&E and Southern California Edison Company (SCE) should not recover more than the actual recorded costs. Finding of Fact (FOF) 73 and Conclusion of Law (COL) 34 of D.02-04-016 reflect this policy.

As to where the incremental costs associated with PG&E's cost of doing business as it emerges from bankruptcy at a lower investment grade credit rating than reflected in its 2003 GRC should be reviewed, the GRC proceeding provides an appropriate forum for a more comprehensive review of these costs rather than the annual true-up proceeding. Any seemingly delay justifies the means. If PG&E needs relief for these costs, it can request recovery subject to refund.

FINDINGS

1. PG&E filed Advice Letter 2510-G/2460-E requesting to establish various revenue adjustment mechanisms (RAM) and balancing accounts, to modify certain regulatory accounts, and withdraw or delete several electric regulatory accounts that are no longer applicable or needed.
2. PG&E filed Supplemental Advice Letter 2460-E-A pursuant to OP 2 of D.04-02-062, modifying its ratemaking mechanisms proposed in AL 2460-E to ensure that PG&E's authorized 2004 revenue requirements are "trued up" in future rates.
3. It is reasonable to establish the Distribution Revenue Adjustment Mechanism (DRAM) as proposed by PG&E.
4. It is appropriate to create the Public Purpose Program Revenue Adjustment Mechanism (PPPRAM) and Nuclear Decommissioning Adjustment Mechanism (NDAM) as anticipated by D.99-10-057, to modify the existing Utility Generation Balancing Account (UGBA), and to eliminate the TRA accounting structure effective January 1, 2004.
5. The revenue adjustment mechanisms comply with PU Code Section 739.10 by ensuring that errors in estimates of sales do not result in material over or undercollections.
6. It is reasonable for PG&E to report monthly 30 days after the end of each month to the Commission Energy Division director the activity in the DRAM, PPPRAM, NDAM, ERRRA, UGBA, and URGITMA, with their year-to-date balances since the accounts have been established. Any credit amount authorized by Commission for the TRA or TCBA after December 31, 2003 shall be credited to the Headroom Account by advice

letter filing, unless specifically authorized otherwise by the Commission.

7. The Regulatory Asset Revenue Adjustment Mechanism (RARAM), Regulatory Asset Tax Balancing Account (RATBA), Headroom Account (HA), Electric Reimbursable Fee Balancing Account (ERFBA), and Gas Reimbursable Fee Balancing Account (GRFBA) should be established pursuant to the MSA.
8. PG&E should establish the Electric Credit Facilities Fees Tracking Account and Gas Credit Facilities Fees Tracking Account at this time to record incremental credit facilities costs incurred as a result of PG&E's lower credit ratings compared to its historic high investment grade.
9. PG&E is in compliance with D.04-02-062 respecting the Power Charge Collection Balancing Account (PCCBA) as worked out between PG&E and DWR.
10. It is appropriate to modify these existing accounts: Modified Transition Balancing Account (MTCBA), Energy Resource Recovery Account (ERRA), Rate Reduction Bond Memorandum Account (RRBMA), and Gas Supply Portfolio (GSP) proposed by PG&E.
11. In view of the approved MSA, it is reasonable to eliminate all the proposed accounts except the Utility Retained Generation Income Tax Memorandum Account (URGITMA), Preliminary Statement – CH and Electric Deferred Refund Account (EDRA).
12. TURN's protest is denied as to where to record Environmental Enhancement funding and granted with respect to URMITMA.
13. ORA's protest issues are denied because of lack of merits.
14. It is reasonable for PG&E to file a compliance advice letter in view of its proposal to withdraw or delete several regulatory accounts.

THEREFORE IT IS ORDERED THAT:

1. PG&E's Advice Letter 2510-G/2460-E is approved with modifications as indicated herein.
2. PG&E shall report monthly 30 days after the end of each month to the Commission Energy Division director the activity in the Distribution Revenue Adjustment Mechanism (DRAM), Public Purpose Program Revenue Adjustment Mechanism (PPPRAM), Nuclear Decommission Adjustment Account (NDAM), Energy Resource Revenue Account (ERRA), and Utility Generation Balancing Account (UGBA), and Utility Retained Generation Income Tax Memorandum Account (URGITMA), with their year-to-date balances since the accounts have been established.
3. PG&E shall credit any amount authorized by the Commission for the Transition Revenue Account (TRA) or Transition Cost Balancing Account (TCBA) after December 31, 2003 to the Headroom Account by advice letter filing unless specifically authorized otherwise.
4. TURN's protest is partially denied.
5. ORA's protest is denied.
6. PG&E shall file a compliance advice letter to withdraw or delete the regulatory accounts approved for such action by this Resolution.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on April 1, 2004, the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

I abstain,
/s/ CARL W. WOOD
Commissioner

I abstain,
/s/ LORETTA M. LYNCH
Commissioner